

STATE OF NEW JERSEY
Board of Public Utilities
Two Gateway Center
Newark, NJ 07102

IN THE MATTER OF THE PETITION OF)
VERIZON NEW JERSEY INC. FOR)
AUTHORITY TO ISSUE \$850,000,000)
PRINCIPAL AMOUNT OF INTERMEDIATE)
TERM AND/OR LONG-TERM DEBT)
SECURITIES AND TO REDEEM DEBENTURES)

TELECOMMUNICATIONS

DECISION AND ORDER

DOCKET NO.: TF01030139

Bruce D. Cohen, Esq., Vice President, General Counsel and Secretary and A. Ayo Sanderson, Esq. for Verizon New Jersey Inc.

Fred S. Grygiel, Chief Economist, Mark C. Beyer, Manager, Leo Lim, Supervising Accountant, Julie Huff, Accountant II and Anthony Centrella, Director, Division of Telecommunications, on behalf of the Board of Public Utilities.

BY THE BOARD:

On March 2, 2001, Verizon New Jersey Inc. ("Petitioner" or "Verizon NJ"), a public utility of the State of New Jersey as defined in N.J.S.A. 48:2-13, filed a petition with the Board of Public Utilities ("Board"), pursuant to N.J.S.A. 48:3-9, requesting:

1. Authority to issue in one or more series of bonds, notes, or other evidence of indebtedness in an aggregate principal amount not to exceed \$850,000,000, payable more than twelve months after the date or dates of their issuance, and at such time or times as the Petitioner deems appropriate, but in no event later than June 30, 2004.
2. Approval of the petition in the form of a single, final Order.

Petitioner, by letter dated May 16, 2001, requested an extension of the expiration date of the authorization granted by the Board on May 13, 1999, in Docket No. TF99030213, to issue up to \$350,000,000 in intermediate-term and/or long-term debt securities from December 31, 2002 to June 30, 2004.

For the purposes of this proceeding, Petitioner has defined intermediate-term debt securities as debt securities payable in ten (10) years or less, but more than twelve months, and long-term debt securities as debt securities payable in more than ten (10) years.

The Board previously granted the Petitioner authority to issue \$350,000,000 in new debt on May 13, 1999 in response to the petition filed by Verizon NJ on March 30, 1999, Docket No. TF99030213. Since Verizon NJ has not exercised its right to issue any new debt since then, the Board's approval of this petition to issue \$850,000,000 of long-term debt, coupled with the \$350,000,000 already authorized in Docket No. TF99030213, would increase Verizon NJ's authority to issue new debt to \$1,200,000,000.

The Petitioner intends to offer the new debt for sale either through underwriters to the public via competitive bidding, negotiated sale, or on a private placement basis at a negotiated price. Private placement may be with affiliated or non-affiliated companies.

The Board's policy for the placement of securities issues of this magnitude by utilities with high levels of credit quality is that competitive bidding should be the first choice for the method of sale. No compelling reasons have been presented by Petitioner which would warrant deviation from this policy at this time. However, should Petitioner decide on the basis of more specific information that negotiation or private placement of the issue would be advantageous, it shall, at that time, request authority to offer the debt securities for sale by negotiation or by private placement, prior to entering into a commitment, in sufficient time for the Board to make a determination. Petitioner's request shall set forth, in detail, its specific reasons and calculations justifying the alternate method of sale. The Board will then review such request for conformance with Board policy.

Petitioner proposes to use the entire net proceeds realized from the proposed sale or sales of the intermediate-term and/or long-term debt securities, after payments of the costs and expenses incurred in connection with its issuance, for: (a) the reduction of short-term debt levels; (b) the refinancing of \$350,000,000 of long-term debt issues maturing during the period January 1, 2001 through June 30, 2004; (c) the refunding of high coupon debt if market conditions warrant; and (d) the funding of the Petitioner's ongoing operations and construction program.

The price to be paid by Petitioner, the interest rates, the redemption premium, and the public offering price of such debt securities have not yet been determined. Those determinations are dependent upon the timing and the result of the offering or offerings to be made at a future date or dates.

The Board is limiting its approval for the use of the proceeds from the sale or sales of the unsecured intermediate and/or long-term debt securities authorized in this Order to the reduction of the Petitioner's short-term debt, the refinancing and/or refunding of the Petitioner's existing long-term debt issues identified in its petition, and the funding of the Petitioner's ongoing construction program.

By letter dated June 19, 2001, the Division of the Ratepayer Advocate ("Ratepayer Advocate") states "...the Board should not approve the petition unless the Board is willing to accept the possibility that Verizon NJ could use this authority to add substantial debt leverage to its capital

structure.” The Office of the Economist understands the Ratepayer Advocate’s concern, but believes that Verizon NJ has no intention of radically changing its capital structure, and in the unlikely event that Verizon NJ were to radically change its capital structure, the Board could fully insulate ratepayers from any deleterious impacts were they to occur.

The Board, after investigation and having considered the record and exhibits submitted in this proceeding, is satisfied that the proposed transactions to be made are in accordance with law and are in the public interest. The Board AUTHORIZES Verizon NJ to:

- 1) Issue by competitive bidding, one or more series of bonds, notes, or other evidence of indebtedness in an aggregate principal amount not to exceed \$850,000,000, payable more than twelve months after the date or dates of their issuance, and at such time or times as the Petitioner deems appropriate, but in no event later than June 30, 2004;
- 2) Refund up to \$445,000,000 of callable, high coupon long-term debt with maturity dates later than June 30, 2004, if savings will be realized; and
- 3) Extend the authorization date from December 31, 2002 to June 30, 2004 for Petitioner to issue up to \$350,000,000 in intermediate-term and/or long-term debt granted by the Board under Docket No. TF99030213.

This Order is subject to the following provisions:

1. Petitioner shall provide the Board with the following material, to the extent it is available, for informational purposes as soon as it is available prior to the time for the proposed creation of one or more issues: (a) a statement with respect to the bidding for the intermediate and/or long-term debt securities, which shall specify (i) the date, time and method for the receipt of bids for the intermediate and/or long-term debt securities, (ii) the terms and conditions upon which the intermediate and/or long-term debt securities may be redeemed whether at the option of Petitioner, pursuant to any sinking fund for the intermediate and/or long-term debt securities, or otherwise, and (iii) such other provisions as may be established by Petitioner with respect to the terms and conditions of the intermediate and/or long-term debt securities and the bidding therefore; and (b) an assessment of the then current financial markets applicable to the intermediate and/or long-term debt securities which shall include (i) data with respect to recent sales of comparable intermediate and/or long-term debt securities of other utilities, (ii) data with respect to current yields on certain outstanding intermediate and/or long-term debt securities of Petitioner, (iii) interest rate spreads between United States Treasury Bonds and comparable utility intermediate and/or long-term debt securities, (iv) anticipated number of bidders for the intermediate and/or long-term debt securities, (v) the anticipated range of the yield of the intermediate and/or long-term debt securities based upon current market conditions, and (vi) such other information as Petitioner shall deem relevant to assess the expected sale of the intermediate and/or long-term debt securities and the reasonableness of the annual cost of money rate thereof.

2. If, pursuant to competitive bidding procedures: (a) at least three independent bids for the purchase of intermediate and/or long-term debt securities are received; and (b) Petitioner accepts the bid which produces the lowest annual cost of money Petitioner may, without further Order of the Board, issue and sell the intermediate and/or long-term securities in accordance with the terms and conditions contained in such accepted bid. However, if only one or two bids are received for the intermediate and/or long-term debt securities, or Petitioner proposes to accept a bid which does not produce the lowest annual cost of money, the proposed issuance of such debt shall not be consummated until a further Order of the Board authorizing such issuance and sale has been entered.
3. Petitioner shall furnish the Board, in writing as soon as practicable after accepting a bid for the intermediate and/or long-term debt securities, the names of all principal bidders or group representatives together with the amount of the issue, the interest rate, the annual cost of money to Petitioner, the underwriters spread, the price to the public, the percentage yield and the price to Petitioner applicable to each bid.
4. This Order shall not be construed as a certification that the securities proposed to be issued will be represented by tangible or intangible assets of commensurate value of investment cost.
5. This Order shall not affect nor in any way limit the exercise of the authority of this Board or of this State in any future petition or in any proceeding with respect to rates, franchise, services, financing (including method of sale of securities), accounting, capitalization, or any other matters affecting the Petitioner.
6. This Order shall not be construed as directly or indirectly fixing for any purpose whatsoever any value of the tangible or intangible assets now owned or hereafter to be owed by Petitioner.
7. Petitioner shall semiannually file with the Board a statement setting forth: (a) the amount of New Long-Term Debt Securities issued; and (b) details with respect to the disbursement of proceeds.
8. The intermediate and/or long-term debt securities authorized herein to be issued shall not be redeemed before maturity unless such redemption produces net present value savings.
9. Competitive bidding shall be the first choice for the method of sale in this matter.
10. The Board's Order dated May 13, 1999, Docket No. TF99030213, remains in full force and effect in all other respects.

11. The authority granted by this Order shall become null and void and of no effect with respect to any portion of the \$1,200,000,000 (\$350,000,000 + \$850,000,000) now authorized by the Board that is not exercised by June 30, 2004.

DATED: June 22, 2001

BOARD OF PUBLIC UTILITIES
BY:

[SIGNED]
CAROL J. MURPHY
ACTING PRESIDENT

[SIGNED]
FREDERICK F. BUTLER
COMMISSIONER

ATTEST: [SIGNED]
FRANCES L. SMITH
BOARD SECRETARY